the Freeman

Ideas on Liberty

DECEMBER 1975

Index 1975

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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

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LEONARD E. READ *President*, Foundation for Economic Education

PAUL L. POIROT *Managing Editor*

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UNIONS– *and other* GANGS

JOAN WILKE

THERE ARE THOUSANDS OF GANGS across the country today. You may belong to one or more of them yourself. And maybe without knowing it.

There are parent and teacher gangs. And consumer gangs. And racial gangs. Women's gangs. Voters' gangs. Religious gangs. Gangs of professional men. Gangs of farmers. Gangs of businessmen. The law even recognizes "one-man gangs" . . . individuals claiming to represent thousands of others through the device of class action suits.

Their goals are often laudable. There's certainly nothing wrong with a higher standard of living with which so many of them are concerned. But it's how that higher standard is attained that separates responsible citizens from gangsterism.

A gang is a bullying group of individuals that draws its strength from numbers for the purpose of pushing other people around. It operates at the expense of others. Any such group deserves to be called a gang. And when it receives legal acceptance and approval, it deserves the title of dictatorship.

The first gang that succeeds becomes the excuse and impetus for the formation of all the others. The first privilege granted to groups by law becomes the justification for all the rest, creating a gangocracy or mob society.

Among the most notorious and successful gangs today are the labor unions. Hardly a day passes

Miss Wilke is an advertising writer.

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that we don't pick up a newspaper and read that "they've struck again."

Back in the old days, when Jesse James got his gang together, held up a train and took the payroll, it was generally considered a robbery. In fact, there was very little doubt about it. Sometimes they might have joined up with other gangs like the Daltons for greater force and surer success. And it was all very beneficial to their standard of living. But then, right during a holdup . . . (TRUMPETS!) . . . the Cavalry arrived! And they didn't say, "We're here to protect the right of the engineer to get into his cab and for the conductor to go down the aisle." They said "Y'all stop that!" They recovered the loot and put the bounders in jail. Never once did they toss the money bags to Jesse and wish him well. That would have been incredible.

It is just as astonishing to me that today's union activity is protected by law and defended as a "right."

Unions are usually defended on the basis of freedom of association . . . the right to join together for bargaining.

Actually, unions are in violation of others' rights to freely associate. And compulsory arbitration is no bargain.

If unions were simply groups of workers getting together for a better bargaining position with their employer on the terms of their employment, they would be within their *legal* if not their moral rights. They would also probably be fired. And maybe blacklisted among employers. At least, no employer in his right mind would hire someone he thought would cause trouble with his other employees and try to force demands beyond the original hiring agreement.

Unions couldn't exist for very long without the protection of biased laws.

The Law Requires . . .

It is the law that forces employers to bargain, to accept decisions by labor boards, to pay back-wages for time spent in idleness or striking, to make raises retroactive, to prohibit firing and regulate hiring while allowing all kinds of welfare financing of strike activities paid out of the taxpayers' pocket and the employers' production costs. Everyone is the ultimate victim of union extortion.

It all happens under the protection of the law. It couldn't happen any other way. Extortionate power is monopoly power. It can only exist under government protection or establishment. The government has granted labor groups monopoly power over industry.

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But union activity is defended as peaceful.

So was Al Capone when he offered "protection" to some little business. But if the businessman refused, you know what happened. That's about what happened in Kohler, Wisconsin over a period of some ten bloody years. The Kohler strike, complete with bombings, burnings and brutality, clearly demonstrated the violent gangsterism of union extortion. The law no longer tolerates such courageous refusals to capitulate to unreasonable demands. Bargaining is compulsory. Unions just can't stand such bad publicity. It shows the essential nature of their activity.

It is argued that unions are a bulwark against communism and we're reminded that unions are not allowed in Russia.

Russia is nothing but unions — with all the bosses in Moscow. Independent unions aren't allowed in Russia because they represent political power and one dictator just doesn't like another dictator in the same country any more than one mobster likes another moving in on his territory. Of course, that's also why U.S. union bosses don't want communism here. To an ever increasing extent, they are the ones telling the government what to do. They don't want it the other way around.

Dubious Arguments

It is argued that union members are among the staunchest defenders of our American way of life. We all have blind spots, but anyone who thinks he has the right to join with others to use the law as a bludgeon to tell other people how to run their business has no understanding of the American concept of freedom.

There are many people who have joined unions not because they wanted to, but because they had to in order to get a job. That's slavery. It's certainly not freedom of association.

There are many more who will argue that unions are essential in a capitalist society to get the workingman a decent wage. To support their claims, they invariably refer to conditions during the earliest days of industrialization.

Actually, union leaders have simply taken credit for the natural and inevitable increase in wages coming from increased productivity.[1] Union demands beyond the market's real wage level stifle the production upon which future raises depend, increase unemployment and price marginal workers out of the market altogether.

Unions further add to unemployment lines and social disrup-

[1] See *Why Wages Rise* by F. A. Harper (Foundation for Economic Education, Irvington, N.Y., 1957).

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tion by limiting and controlling memberships, with priority for entry going to favored friends, relatives and racial groups.

The law encourages union activity in the private sector but considers it illegal in the public sector.

Irony abounds. Along with a lot of garbage.

Such areas of industry as garbage collection and sanitation were preserved as government's public responsibility for the reason that interruption of such services would be too dangerous or disruptive. So government monopoly of public services was tied to laws making strikes illegal. The laws are simply being disregarded and it is the monopoly position established by government that gives the public workers their striking power.

In San Francisco where illegal strikes have occurred, street cleaners are now making $19,000 a year.

We need to relegate all services other than peace-keeping, law enforcement and judicial activities to the competitive market and then enforce laws against strikes in those areas of public safety and order reserved as government responsibility.

Strikes and union activity in the private sector serve to justify and incite demands in the public sector and are in themselves disruptive and dangerous.

In the gas crisis some months back, the impact of the truckers' strike was felt in a very short period of time, causing critical food shortages in some rural communities and giving some truckers a very heady feeling about their power.

Any nationwide strike in our interdependent society is bound to have quite an impact on every business and everybody.

While compulsory public sector bargaining gives union leaders undue and unconstitutional power over elected government leaders and thus all members of society, union activity in the private sector is equally dictatorial and deleterious.

Industry-wide union standards and dictates act to stifle and cripple the competition between private enterprises upon which efficiency, progress and continuous service depend.

Leave It to Competition

The only way outside of slavery to make sure services won't be interrupted is open competition. That means competition in labor as well as the rest of industry. It means employment by private arrangement.

Unions need never be outlawed. All that is needed is to abolish

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their privileged status under the law.

Individual bargaining would end the artificial war between employers and employees created by labor bosses for their own benefit. And it is only fair and honest dealing. It means substituting individual efforts in competition on the basis of ability for the shakedown demands of group force. It is everyone getting the best bargain he can without holding up someone else. It is nothing more than honoring one's agreements instead of going back on them.

What an opportunity was missed just recently when the post office employees threatened a nationwide strike. All offices could have been closed down immediately and permanently. Virtually overnight, new systems would have started, with competition working to bring down prices and improving services beyond anything imagined at present. We could have been rid of one of our biggest and most expensive political fiascos. Instead, the criminal action of an illegal strike was rewarded by acceptance of extortionate demands.

The only proper response to job dissatisfaction is: "I quit." Try to take that right away from anyone!

And correspondingly, the response to strikes and union demands is the response only competition can give: "Okay, we'll get someone else."

It is the response of freedom to tyranny. But it is a response that is forbidden by law in a country we still like to call free.

IDEAS ON LIBERTY

Creating Unemployment

WHEN STRONG LABOR UNIONS in the past made it their function to provide for their own unemployed members, they thought twice before demanding a wage that would cause heavy unemployment. But where there is a relief system under which the general taxpayer is forced to provide for the unemployment caused by excessive wage rates, this restraint on excessive union demands is removed. Moreover, "adequate" relief will cause some men not to seek work at all, and will cause others to consider that they are in effect being asked to work not for the wage offered, but only for the *difference* between that wage and the relief payment. And heavy unemployment means that fewer goods are produced, that the nation is poorer, and that there is less for everybody.

HENRY HAZLITT, *Economics in One Lesson*

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JAMES J. KILPATRICK

THE NEW NATIONAL NIGHTMARE

THE TIP POINT is among the most familiar phenomena of our everyday life. A child discovers the tip point of a tricycle and a teeter-totter. A boatman perceives the turning of a tide. A baseball umpire will take so much sass from a player and then no more. At a certain point, matter will boil, freeze, crystalize, or jell. The tip point is the moment at which conditions change not in degree, but in kind, or in direction.

Two hundred years after our free society began, we are close to such a tip point now. We are within a drop or two of the critical moment at which freedom crystallizes into regimentation, when the people no longer are masters of government, but government is master of the people.

The dangers are widely perceived, but they are separately and not collectively perceived. It is the occluded vision of the man who cannot see the forest for the trees. Doctors see one part of the picture, educators another, businessmen yet another. We dwell in small rooms, in little shut-off cells, and sometimes we labor to breathe. "It is stifling in here," we complain. And we are not always aware that air is being sucked from the next room also. Yet the atmospheric changes are so slow, so gradual, so apparently insignificant, that we seldom complain at

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all. We do not understand what is missing: It is the very air of freedom.

Thomas A. Murphy, chairman of General Motors, recently spoke to the National Association of Accountants. As a businessman, he spoke from his own small room:

"Our economic system, founded with our nation 200 years ago, has come more and more under government control. Very conspicuously in the marketplace, the government, by mandate and edict, is substituting its sovereignty for that of the individual consumer. Government, rather than the buying public, is increasingly determining the kinds of products and services offered for sale, and government regulations are influencing their costs and consequently their prices. What is of greatest concern is that each intrusion of government, because it takes decision-making power away from the individual consumer, diminishes his economic freedom."

Dr. Murray L. Weidenbaum, director of the Center for the Study of American Business, notes a "second managerial revolution." The first such revolution saw the rise of professional managers, as distinct from owners. "This new revolution is far more subtle. It involves the shift of decision-making from managers, who represent the shareholders, to a cadre of government officials, government inspectors, government regulators." [See "Where Overregulation Can Lead," *Nation's Business*, June, 1975.]

The Age of the Regulators

The last word is the key word: regulators. If we were to give a name to the ominous new age that lies ahead, the age beyond the tip point, we might well term it the Age of the Regulators. A part of the ominous aspect of the approaching era is that many Americans see nothing ominous in regulation. It is a friendly word. We are favorably inclined toward a regular fellow. We shy from the irregular. The dictionary lumps regular with "normal, typical, natural," as in "a regular pulse." A regulated life is popularly thought to be a good life.

This very complaisance contributes to the creeping oppression. "The people never give up their liberties," said Edmund Burke, "but under some delusion." Here the delusion is that, if a little regulation is good, more regulation is better. On the sound premise that freedom cannot exist without order, a fallacious conclusion is erected: the more order, the more freedom. It does not work that way.

The enveloping process begins with a perceived ill. Thalidomide.

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Smog. Racial discrimination. The fly-by-night private school. The fire ant. The rickety ladder. The dangerous toy. In our struggle toward a more perfect society, it is altogether natural and desirable that ills be remedied. A boy drowns at summer camp; a little girl dies when her nightgown catches fire. Such tragedies pluck at the heart; and compassionate government responds.

But the vice of regulation is that it follows an inexorable process: first a little, then a lot. Within the Congress – and the state legislatures are not materially different – there develops what John Randolph called the legislative itch. On the body politic a rash is seen; it must be scratched. Statutes tumble upon statutes, head over heels, pell-mell, laws upon laws, and these laws must be administered. They must be interpreted, construed, amplified, extended, and enforced. Enter the regulator. He is a decent man, more often than not, eager to do good. But his passion is to regulate. It becomes a consuming passion.

Out of the perceived ill of thalidomide came the straitjacketing procedures that now govern new drug applications; and these procedures have stifled the drug industry. Out of the perceived ill of smog came the staggering array of environmental controls – controls that have accomplished some good and have added billions of dollars to the cost of consumer goods.

Reverse Discrimination

The perceived ill of discrimination has produced the new egalitarianism. Its purpose is to redress old wrongs with new wrongs. Thus, Boston writhes in the unhappiness of racial-balance busing. At Washington University in St. Louis, the chancellor is given four days to sign a 30-page statement of conciliation or be denied a $1.8 million contract. Athletic directors are commanded to rewrite their budgets. The Supreme Court holds that "great deference" must be accorded the "guidelines" of the Equal Employment Opportunities Commission. Whole states embark upon the neuterization of their codes, solemnly amending chairman to read chairperson.

Increasingly, the process pervades the field of health care. At Kettering Medical Center, near Dayton, the regulators descend. The hospital is new, sparkling, modern, safe, efficient; it has met or surpassed every state and local building requirement; it has been professionally accredited. But the regulators are not pleased: The windows are wrong, the airflow system is wrong, the kitchen doors

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are wrong. And these deficiencies must be corrected at once, never mind the cost, or else—! Or else Kettering will not be reimbursed for Medicare and Medicaid patients.

Kettering is not alone. Scores of hospitals face the same threat.

One of the busiest agencies in Washington is the Consumer Product Safety Commission. Its mimeographs run night and day. Here the regulators, in an altogether typical week, are concerned with book matches, lawn mowers, television receivers, playground equipment, bicycle brakes, and baseball bat grips. The regulators are concerned with carpets, cigarette lighters, and a prototype child-resistant closure for use by the elderly. They will regulate these things.

Committees of the House of Representatives are at war over FIFRA. This is the Federal Insecticide, Fungicide, and Rodenticide Act, administered by the Environmental Protection Agency. In their zeal to regulate, the FIFRA regulators set up a toll-free telephone network to generate complaints of pesticide misuse. To some members of the House, this is an "indefensible informant system." To others, it is a justified step in pesticide regulation.

Our regulators, state or federal, have this in common: They mean to be obeyed. The smallest offender cannot be ignored, lest larger offenders be encouraged. Thus, in Ohio, the regulators of education have cracked down upon the Tabernacle Christian School in Greenville and brought criminal prosecution against 15 disobedient parents. It is of no consequence that the children in this fundamentalist school are achieving at levels higher than comparable students in public schools. The school does not comply with regulations. Whip it into line!

Tocqueville's Warning of Democratic Despotism

More than a hundred years ago, Alexis de Tocqueville visited the young American republic. He returned to France and between 1835 and 1839 delivered himself of that great work, "Democracy in America." Toward the end of volume II, he reflected upon "what sort of despotism democratic nations have to fear." It would be a different kind of despotism, he thought, from the despotism of old. "It would be more extensive and more mild; it would degrade men without tormenting them." Looking far ahead, he foresaw a nation populated by an innumerable multitude, all absorbed in their own affairs, preoccupied with "the petty and paltry pleasures with which they glut their lives."

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This was De Tocqueville's terrible vision:

"Above this race of men stands an immense and tutelary power, which takes upon itself alone to secure their gratifications and to watch over their fate. That power is absolute, minute, regular, provident, and mild. . . . For their happiness such a government willingly labors, but it chooses to be the sole agent and the only arbiter of that happiness; it provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances. What remains, but to spare them all the care of thinking and all the trouble of living?

"Thus it every day renders the exercise of the free agency of man less useful and less frequent; it circumscribes the will within a narrower range and gradually robs a man of all the uses of himself. The principle of equality has prepared men for these things; it has predisposed men to endure them and often to look on them as benefits.

"After having thus successively taken each member of the community in its powerful grasp and fashioned him at will, the supreme power then extends its arm over the whole community. It covers the surface of society with a network of small, complicated rules, minute and uniform, through which the most original minds and the most energetic characters cannot penetrate, to rise above the crowd. The will of man is not shattered, but softened, bent, and guided; men are seldom forced by it to act, but they are constantly restrained from acting. Such a power does not destroy, but it prevents existence; it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to nothing better than a flock of timid and industrious animals, of which the government is the shepherd."

A magazine recently counted 63,444 federal regulators. It put the cost to consumers of federal regulation alone at $130 billion a year. The regulatory network spreads and grows; the tip point approaches; and De Tocqueville's nightmare consumes the American dream.

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E. C. PASOUR, JR.

The World Food Crisis

SOCRATES said that the best sauce for food is hunger. Today, as in the age of Socrates, there is no lack of hunger sauce. There is widespread concern about the relationship between population and food supply throughout the world. Questions are being raised about the appropriate response by the western world to meet the world food crisis.

Numerous actions have been proposed. Senator Humphrey has urged us to reduce our consumption of hamburgers by one per week. Jean Mayer, the famed nutritionist, holds that a 10 per cent decrease in meat consumption by Americans would release enough grain to feed 60 million people. The U.S. delegation to the 1974 World Food Conference in Rome proposed a resolution to restrict the non-agricultural use of fertilizer to alleviate the world food problem. Many churches are sponsoring World Hunger Appeals to provide food relief. Individuals are encouraged to change their life style – to eat less food, to eat less meat, to use less energy, and so on.

Is the world hunger problem becoming more acute? If so, why? How effective will measures such as those indicated above be in alleviating world hunger?

The concern about the relationship between population and the food supply is not new. Sir Thomas Malthus predicted in 1798 that population would continually increase faster than the food supply, causing chronic food shortages.

Dr. Pasour is Professor of Economics at North Carolina State University at Raleigh.

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Today, in much of Asia, Africa and Latin America the Malthusian specter still stalks the land. The prospect of world famine is held before us with hundreds of millions of people starving. Yet, it was not always so. A decade ago food production was increasing in many of these areas which today appear hopeless.

Why has the hunger problem suddenly become more acute? Conventional wisdom holds that the world food crisis is caused by a population explosion. But this is not the case. World food production has increased twice as fast as world population during the past 25 years. Why, then, has the hunger problem suddenly become more acute? Numerous reasons have been cited — war, droughts, floods, earthquakes, and the like. Examples probably can be found to support each of these reasons. Yet, there is a more fundamental reason for the recent worsening of the food problem.

Much of the cause for the current world food crisis can be attributed to the destruction or reduction of private property rights of food producers in countries where the hunger problem is most acute. Numerous example can be cited where governments have weakened or destroyed economic incentives by confiscating private land, forcing farmers to work on collectivized farms, instituting price controls on food, and other such measures.

India provides a good example. India has a serious hunger problem which gets worse each day. Only a few years ago, the food situation appeared fairly bright. There was an agricultural boom, with food production doubling from 1950 to 1970. Yields increased, stocks of food were built up, and India produced more food than it consumed as weather and technology contributed to bumper yields in a Green Revolution. Today, however, the hunger problem in India commands the world's attention.

Government Interference

Why has the situation changed? Although other factors (such as the Bangladesh refugees) have contributed to the worsened situation, much of the food crisis in India can be attributed to actions taken by the Indian government affecting incentives of food producers. After her big electoral victory in 1972, Mrs. Gandhi's party reduced the amount of land that could be held by an adult male from 30 irrigated acres to 18 acres. The confiscated acres went to the landless. In addition to the direct effect of land confiscation on incentives, the policy also affected the profitability of tractors and

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implements. The reduced acreage was not large enough to support the machinery. The government also nationalized the wholesale grain trade, forcing farmers to sell their crops at fixed prices below the market level, whereas previously farmers were permitted to sell half of their grain to wholesalers at the higher market price. The impact of such actions on the quantity of food produced and marketed is predictable. (Black markets and corruption forced the government to rescind this action.) The adverse effect of price controls on output has been confirmed in scores of cases on every continent.

Quantitative estimates are not available of the effect of these government actions in India affecting producer incentives. However, the effects of these actions are undoubtedly important in the food crisis in India today. (The actions described were all taken well before Mrs. Gandhi suspended civil liberties and increased police powers in June 1975 in order to preserve democracy in India.)

The situation in India is not unique. A reduction (or the threat of a reduction) in private property rights of food producers (and the accompanying reduction in economic incentives) has also resulted in decreased food production in Chile, Mexico, Peru, Argentina and Tanzania in recent years. Irving Kristol concludes that "*every* country, e.g., Chile, Peru, Mexico, which has launched experiments in collectivized agriculture has quickly witnessed a decline in agricultural productivity." The experience in Russia when peasants were forced to join the government-operated collective farms in the early 1930's is also consistent with this conclusion. Russia, which had a huge surplus of grain before the Communist Revolution, has had to import grain since abolishing private farms.

The Best Response?

This poses an interesting question. What is the appropriate response by people in highly developed countries in cases where food shortages are due to conscious government policies which restrict food production? Providing aid in such cases may only exacerbate the problem. That is, relief of hunger in countries which have confiscated private property, instituted price controls and otherwise reduced food production can help to perpetuate the system (whether the statism is despotic or benign) that is to blame for much of the suffering to begin with. Providing food aid which is used as a crutch to institute land reforms, price controls and the like which stifle initiative and reduce food pro-

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duction is analogous to the gift of money to an alcoholic with no strings attached.

How about eating less, using less fertilizer, and similar conservation measures to provide more food for the hungry? Such actions may be effective in assuaging guilt but provide no solution to the world food problem. Indeed, eating less by U.S. citizens may well be counter-productive since, if effective, it would decrease demand, resulting in a lower price and consequently decreased production.

Temporary relief can and often should be provided when food problems are worsened by droughts, floods, and other disasters. Long-run food aid, however, is almost certain to have a disincentive effect on agricultural production in recipient countries. Thus, the long-run solution to world food problems must lie within the countries facing food problems rather than in food aid programs.

Does the population explosion in the developing countries mean that these countries must inevitably face chronic food shortages? Population is an important factor in the demand for food. Yet, population increases are now being used as a scapegoat in connection with the food crisis. Lifeboat ethics which involves saving a limited number of lives while deliberately letting others die is now being seriously discussed. In recent years, however, there has been a dramatic decrease in the birth rate in the U.S. and throughout the temperate zone.

The population problem in developing countries is closely related to the income problem. As per capita incomes increase, the birth rate decreases. Thus, the food problem in developing countries cannot be separated from the problem of economic development. Both income and hunger are closely related to the kind of economic incentives facing producers of food and fiber (and other goods and services).

Incentives to Produce

There is little doubt about the relationship between economic incentives and food production. A recent USDA study supports this view: "Among the major impediments to increasing food production in both the developing and the planned economies are policies designed to maintain low and stable food prices to consumers." Thus it seems paradoxical that population control (including Draconian controls such as compulsory sterilization of population in India and other countries) has received more attention than measures affecting economic incentives and food production in developing countries.

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There is a great deal of evidence that farmers are most productive when individual incentives prevail and the market is relied on to provide signals to consumers, middlemen, and producers. Yet, this evidence appears to be largely ignored in discussions of world hunger problems. The November, 1974 World Food Conference held in Rome recommended a number of programs to increase food production, including water management, increased production and use of fertilizers, pesticides, improved seeds and other inputs and extension efforts to adapt agricultural technology to developing countries.

Nowhere in the recommendations of the Rome Conference is recognition given to the widely demonstrated relationship between food production and producer incentives. The recommended programs are likely to have little impact on food production in developing countries if this relationship is ignored. As a recent *Forbes* article on the hunger problem in India concludes: "There is, after all, more social justice in a loaf of bread than in schemes for a fairer distribution of wealth. Putting it another way, . . . Adam Smith, however unfashionable, can feed more people than Karl Marx can."

IDEAS ON LIBERTY

Of Rights — Natural and Arbitrary

IF GOVERNMENT can create rights, it can withhold and destroy rights. The practical consequence of this fact is that if rights are derived from governments, there are no rights. Governmental favors may masquerade as rights. They may even assume a semblance of constitutionality. But such favors are instruments of power; they are arbitrary "rights" granted under the circumstances, subject to recall and change. When rights are arbitrarily created, there are no rights, only privileges. The extent to which we have accepted the belief that children have a right to education, that farmers have a right to a parity of income, that all have a right to the latest medicine, and so on, is the measure of the extent to which we have yielded up our natural rights.

CLARENCE B. CARSON

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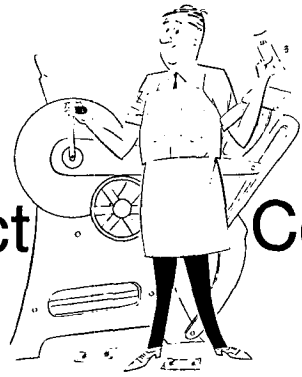
A Perfect Counterfeit



JAMES E. MCADOO

FROM TIME TO TIME, usually in some large city, counterfeit money rears its ugly head. As quickly as possible, warnings are issued to banks, businessmen, and residents. Everyone is cautioned to examine all bills of a certain denomination, and to look for certain flaws by which the counterfeit may be distinguished from lawful money.

With some trepidation, people look through their wallets, purses, and cash drawers. Counterfeit money, while it might be interesting to see, is the last thing they want to find in their possession. Before long, however, the scare blows over. No further warnings are issued, and it is assumed that the counterfeit bills have been detected and withdrawn from circulation. People are able to relax again.

Mr. McAdoo is an investment advisor residing in Nevada.

Everyone fears counterfeit money. Not only does the law prohibit spending or keeping it, but counterfeit money represents an immediate loss to the person who finds it in his possession. What he thought was money turns out to be worthless paper that must be surrendered to the authorities without compensation. The loss is both obvious and personal.

The potential loss inherent in counterfeit money seems almost self-evident. Yet, those who might accept it and spend it unknowingly, before it was detected, would certainly feel no sense of loss. Apparently, the entire loss would fall upon the unfortunate individual who happened to be last in line when it was detected and confiscated.

But an interesting question arises: *Where is the loss realized if the counterfeit money is never*

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detected? Does the potential loss simply remain potential, never to be realized? If no one is fated to be "last in line," who can lose through the introduction and circulation of a "perfect" counterfeit money?

Someone Must Lose

It might be argued that there can be no such thing as a perfect, or undetectable counterfeit. Still, it is a safe bet that, at any given time, a certain amount of counterfeit money is in circulation, and remains undetected. Even if that were not the case, it is possible to postulate a perfect counterfeit and to trace its economic significance.

We know, almost by instinct, that someone must lose. The counterfeiters, who successfully introduce their worthless facsimiles into permanent circulation, have obviously realized a fraudulent gain. But at whose expense? If the counterfeit is never detected who loses? There can be only one answer: the counterfeiters gain, and everyone else loses.

The character of the insidious loss inherent in a perfect counterfeit money is confoundingly difficult to recognize. We *know* that the counterfeiter's gain is achieved at a loss to everyone else, but "everyone else" feels no sense of loss. On the contrary: everyone else feels more prosperous. There is more "money" around. Retailers notice increased sales; they, in turn, must increase their purchases. Business activity picks up; people have more money to spend. Far from feeling a sense of loss, the victims of the counterfeiter's fraud enjoy a growing sense of prosperity. As long as the quantity of counterfeit money introduced into circulation is held to an amount that in itself will not create suspicion, the victims will believe they've never had it so good.

The "prosperity" engendered by the introduction of a perfect counterfeit money is clearly a false prosperity. The increased tempo of sales and purchases has been stimulated by a fraudulent increase in the supply of "money." The production and exchange of goods and services have been given a shot in the arm, but money has been weakened by counterfeit. The value which is unwittingly given to the bogus "money" must inevitably be taken from the lawful money. In effect, the counterfeit steals its purchasing power from the lawful.

The result is gradual, but inexorable: the purchasing power of all money is reduced. *Prices rise.* The counterfeit has undermined the value of the lawful; the potential loss inherent in a perfect counterfeit money has at last been realized!

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But it is not recognized. The victims, unaware of the existence of counterfeit money in their economic bloodstream, are unable to identify the true reason why rising prices are eroding a prosperity which they regarded as real. Understandably, they seek explanations in visible symptoms of their problem: they blame those who raise their prices. The real villain, the counterfeiter, is immune to criticism; no one suspects his existence. But through the economic damage he has inflicted upon society, he has created a cause for popular frustration and unrest that can be expressed only in misdirected social and political antagonisms.

The Better the Counterfeit, the Greater the Danger

There can be no rational defense for counterfeit money, even a "perfect" counterfeit. The false prosperity which would inevitably follow the introduction of a perfect counterfeit into circulation would just as inevitably be followed by a collapse of that false prosperity under the weight of rising prices. The counterfeiter would gain, and everyone else would lose.

The crime of the counterfeiter is not that he has usurped a prerogative which the government has taken unto itself; it lies in the grave damage he can inflict upon the economic, social, and political structure of the country whose money he counterfeits. The more successful he is, the more damage he does. A perfect counterfeit would eventually destroy the value of all money, including the counterfeit. In doing so, it would create a condition of social and political chaos. It is with good reason that every person in the country should fear and abhor even the idea of a perfect, undetectable counterfeit money.

Bank-Created Credit

By an incredible paradox, our official monetary policy supports a practice, the effects of which are *precisely those of a perfect counterfeit money.* That practice, defended by economists, businessmen, bankers, and government, is the creation of credit through the commercial banking system.

There can be no doubt that credit plays an important role in diversified and specialized economies. Through credit, the entire economic cycle – from demand to production, distribution, exchange, and consumption – can be enhanced in function and effectiveness. Legitimate credit has a legitimate place in the economic processes by which we survive and prosper.

There is, however, a crucial dif-

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ference, in both nature and effect, between legitimate credit, and the credit created through the commercial banking system. Legitimate credit involves the temporary loan of *existing* money between one party and another. Bank credit involves the *creation* of a substitute for money. This substitute, usually in the form of a demand deposit, is officially defined as money. As an addition to the money supply, it is indistinguishable from any other form of money; it becomes, in its effects, a perfect counterfeit.

The creation of bank credit is made possible by the concept of fractional-reserve banking. Quite lawfully, today's commercial bank need not retain all the money placed on deposit by customers; it is required to safeguard only a small percentage of that money as a *reserve*. The balance is available for the use of the bank in its profit-making operations, primarily loans and investments.

Reserve requirements, established by the Board of Governors of the Federal Reserve System, will vary with the classification of the bank, the type of deposit, and the changing monetary policy of the Fed. For purposes of illustration of the simplest form of credit creation through the commercial banking system, assume a 10% reserve requirement for demand deposits at THE BANK.

Mrs. A opens a checking account with THE BANK by depositing $1000 in cash. Since cash in THE BANK's vault is counted as part of its reserves, the ledger entry made by THE BANK would take the following general form:

ASSETS		LIABILITIES	
Reserves	+ $1000	Demand Deposits	+ $1000

Since reserve requirements are 10%, or $100 of Mrs. A's deposit, THE BANK now has $900 in excess reserves.

Mr. B, a known customer, now wishes to borrow $900. THE BANK accommodates him by crediting $900 to his checking account. The ledger now shows:

ASSETS		LIABILITIES	
(Mrs. A) Reserves	+ $1000	Demand Deposits	+ $1000
(Mr. B) Loans	+ $ 900	Demand Deposits	+ $ 900

It can be seen that the $1000 deposited by Mrs. A has resulted in checking account balances of $1900. THE BANK has created credit, in the form of a demand deposit, of $900. Essentially, Mrs. A and Mr. B may now spend the same "money" at the same time.

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In this generalized illustration, the supply of "money" was increased by only 90%. In practice, the supply of money is multiplied many times, since a deposit of $1000 cash would support loans of $10,000, given a reserve requirement of 10%.

Confusing Debt for Money

Whether inflation is accomplished through the infusion of perfect counterfeit dollars, or by the infusion of dollars created by bank credit, the results are identical. Billions upon billions of "dollars" have been injected into our economic bloodstream through deposits created by bank credit. As a result, money has not only lost most of its value, but has also lost most of its meaning. We have confused debt for money, and the consequences of our error are upon us. No economic, social, and political structure can withstand the destructive impact of an endless flood of counterfeit money. Neither can it survive an endless flood of artificial money in the form of bank credit. The effects, and the results, are the same.

While counterfeiting is illegal, and universally condemned, bank credit is not only legal, but vigorously defended as a benefit to society. For hundreds of years, the creation of credit through the commercial banking system has been accepted as appropriate practice. The validity of the principle of "fractional reserves" has received no successful challenge.

Certainly, no challenge is to be expected from the banking community itself; created credit is the primary source of bank profits. Neither can a challenge be expected from the business community; bank credit is a primary source of borrowed funds. Regrettably, no challenge can be expected to arise from government. The commercial banking system provides the means whereby government debt is converted to a form of "money."

If a challenge to the concept of fractional-reserve banking is to be issued, it must come from a well-informed public: a public which perceives the true nature, cause, and dangerous effects of inflation. A well-informed public, if it has the courage, will defend itself not only from counterfeit money, but from artificial money as well. Perhaps, in time, a future generation will enjoy the economic blessings of a real money.

If that happy condition is ever to become a reality, we can start work by examining the validity of Fractional-Reserve Banking.

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Liberalism Used to Mean Freedom

JOHN SHOLTO DOUGLAS was the 8th Marquess of Queensbury, and a noted sportsman as well. "Marquess of Queensbury" has a familiar ring, because in 1867 the Marquess gave his name to a newly devised set of rules to govern prize fighting, rules which are still in force. Prize fighting before the present era – under the old London Rules – was a combination of wrestling and boxing; it was bare knuckle, and a round was called each time a contestant was knocked or thrown to the ground. Under the new Marquess of Queensbury rules the boxers wore padded gloves, and rounds lasted three minutes with a one minute rest between rounds.

Now, it is obvious that these new rules changed the nature of prize fighting, and these changes had a good deal to do with determining the outcome of any particular contest; the old London rules favored the brawler, whereas the athlete who relied on speed and skill had a better chance under the new arrangement. A few, like John L. Sullivan, could win either way! Until Sullivan met Jim Corbett!

Lovers of the manly art used to debate the respective merits of Jack Dempsey versus Joe Louis; who was the greater fighter? The best one can do with a question of this sort is to consult an expert. The expert in this case was Jack Sharkey of Boston, a man who had faced both Dempsey and Louis in the ring, being beaten each time. A sportswriter buttonholed Sharkey and asked, "How about it, Jack; who's the better man, Dempsey or Louis?" "It all depends," Sharkey replied. "If the two men fought in the ring, Louis would win. But if the two men fought in a telephone booth, only Dempsey would walk away."

The Reverend Mr. Opitz is a member of the staff of the Foundation for Economic Education, a seminar lecturer, and author of the book, *Religion and Capitalism: Allies Not Enemies.*

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The rules of a game define its nature, they lay down the conditions for winning, and they go a long way toward determining the outcome of a contest.

The Rules of Life

Life is not a mere game. Living is a lot more complex than any sport, but life and games are analogous in at least one respect: Neither is possible without an appropriate set of rules to be followed. It's the rule book which determines the character of a game, and no game is even conceivable without one. To throw out the rule book is to forsake the game. By the same token, if we ignore, or deny, or break, or improperly identify, the ethical ground rules for flourishing human life, then the quality of life – individual and social – will decline.

Hoyle's Games, the rule book for various pastimes, has not changed radically within memory. Which means that you and your opponent may devote your full attention to enjoying the game; none of your energy need be diverted into wondering what the rules are and how they should be applied or altered. Life is different. In life, the rules are always at issue; never more so than at this particular juncture in human affairs, during the final third of the 20th century. It is in the nature of the human condition as such that each generation must test things for itself; no people can passively accept the rule book handed down by its forebears. "What from your father's heritage is lent," wrote Goethe, "Earn it anew to really possess it."

We're here to think about our lives in society, about the optimum social conditions for bringing out the best in individual potential, about the rules which define economic competition. Peoples of every age in every culture have engaged in similar pursuits, searching for the rules leading to the good life. The rules have been discovered and they've been lost; they have been affirmed and they've been denied. Rules for the good life, when found, have been systemized as the traditional moral code, whose prescriptions are remarkably alike no matter where on the globe you take a sampling.

Customs and conventions vary widely; but every moral code affirms that it is wrong to betray your friends, wrong to break your word, wrong to injure your neighbor, and so on. Men and women have lived by this code off and on, violating its precepts from time to time, then climbing back on the wagon. Every culture has founded its legal system on the moral code; ethical injunctions against stealing and murder give rise to laws against theft and homicide; rules

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for personal living beget the rules for living together in society. Thus, such moral and legal guidelines for human action as: injure no man, respect a man's property, don't covet his goods, fulfill your contracts, and the like.

If we look within, we discover that we are motivated into action on two distinct levels; individual and social. There's no way to reduce the complexities of human behavior to one simple motivating force. There are at least two sets of such forces.

Achieving One's Purpose

On the first level, each of us has his own life to live, his own ends to achieve. The human being is a goal seeking creature, a purposive being. Personal life has a hierarchy of meanings, and each of us finds significance in his own living to the degree that he succeeds in discovering and realizing some of life's larger purposes. One such large purpose is to find a sense of achievement in a chosen occupation or profession; if genuine satisfaction is lacking here the deficiency can hardly be made up elsewhere. There's a profound truth in H. L. Mencken's observation that the great division among mankind is between those who enjoy their work and those who don't.

Now, in addition to this major thrust in individual life most people have some hobby which stimulates a sense of accomplishment – like tennis, or bridge, or music, or woodworking. And then there are the lesser goals, of the New Year's resolution variety; like learning a new skill, acquiring a second language, losing five pounds by Labor Day, and so on.

It is obvious that some societies give you more scope and elbow room for the realization of your assorted goals than do other societies; you have a better chance to express the various facets of your nature in New York than in Moscow. The freer the society the more opportunity for individual self-expression; by definition this is the case. Your freedom increases as more and more of your life is self-directed rather than other-directed. If your life is at the disposal of other people you are not free – even if these other people are organized as government and even if you voted for them; you are not free if they are managing or directing your affairs!

It is a deeply rooted set of motivations which impels each one of us to take charge of his own life, the better to realize our personal goals. The relevant considerations here, at this level, have to do with human nature and destiny, that is, with psychology and philosophy. People who do not know what to

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do with their lives should seek out a spiritual advisor; or a psychiatrist, if they are ill.

Most people are moderately successful at this business of living their lives, and those who reflect on the matter realize that they cannot live their personal lives in isolation. We cannot function fully as persons unless we interact with some society. Even Robinson Crusoe had the language and culture of England with him on his island, plus some tools and a Bible. And here we come to a second set of motivations, a spin-off from the first. Your primary incentive is to achieve your personal goals, but a related incentive is work for those social conditions which maximize the opportunities for you — and everyone else — to achieve personal goals. The relevant considerations at this level are in the domain of political and economic philosophy.

You have certain basic instincts, and these primordial drives will see to it that you live your own life; but the assumption of personal responsibility for strengthening and enlarging the structures of freedom in our society is a voluntary action undertaken by a comparative few. Those who do act at this level are prompted by a sense of moral obligation. But moral obligation is weak in our society, so there are lots of dropouts at this level; there are people who demand all the advantages a free society has to offer, but who make no contribution to freedom in return. When Ortega y Gasset wrote his book, *The Revolt of the Masses*, in 1932, he put these dropouts in the category of mass man.

Ortega's Mass Man

Ortega used the term "mass man," or "the masses" in a very special sense; he did not mean the poor, the illiterate, the uneducated, those who work with their hands. I suspect Ortega would say that there are more mass men per square inch on the faculties of our great universities than exist in any typical farming community of Middle America. Mass man is the rootless intellectual, detached from his community and out of step with his country's history. Such a man is unable to trace the connection between effort and reward in society, and, convinced of his own superiority he's bitter because lesser folk refuse to give him his due.

Mass men "are only concerned with their own well-being," Ortega writes, "and at the same time they remain alien to the cause of that well-being. As they do not see, behind the benefits of civilization, marvels of invention and construction which can only be maintained by great effort and foresight, they imagine that their role is limited

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to demanding these benefits peremptorily as if they were natural rights." Mass man, "finding himself in a world so excellent, technically and socially, believes that it has been produced by nature, and never thinks of the personal efforts of highly endowed individuals which the creation of this new world presupposed." (*Revolt*, pp. 65 and 63)

A culture – as the name tells us – is something cultivated; it is inspired by human imagination and vision, it demands hard work and sacrifice to bring it into being and to sustain it. No society or civilization "just is" – as nature "just is." Societies come and go; civilizations rise and fall. Arnold Toynbee counts some 21 powerful empires which once held sway over portions of the earth and millions of people but which are no more. It is obvious, therefore, that barbarism, or a dull and vegetative existence, is the rule of mankind; whereas civilization – a society where there is maximum opportunity for achieving the human potential – is the exception.

The good society, where people enjoy liberty and order and are stimulated to pursue their personal goals, doesn't just happen – it is a contingent thing, that is, it depends on preceding events or situations. Good health is likewise a contingent thing; you cannot enjoy optimum physical well-being on just any old terms. Assuming normal heredity, good health is contingent upon proper diet, rest and exercise – and the good luck to avoid accidents and noxious foreign bodies. Are there analogous rules for a good society, that is, conditions which must be met if we are to retain present liberties, and use them to expand the areas of life where people ought to be freer than now to pursue their peaceful goals?

The Good Society

Many of our contemporaries believe that there is a simple answer to this question. You want the society to move in the direction of greater freedom? Extend the franchise, lower the voting age, get people interested in the electoral process; and then make sure they cast their ballots. This is the meaning of democracy, and democracy means freedom. A truly democratic society, they would continue, is one where the government is totally responsive to the popular will. Government, in this view, belongs to The People, and The People is entitled to get from the government whatever a majority of them demand from it. If there are troubles in society these days – which nobody denies – the cause is not democracy, it is too little democracy; government is

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not responsive enough to The People. Therefore, such persons conclude, the cure for the ills of democracy is more democracy! I'll insert here a sage comment of Hegel: "The People is that part of the nation which knows what it wants!"

Now, it is not difficult to see how this 20th century democratic dogma came to have the hold it has on people of our time. Go back a few hundred years. In the early 1600's, James the First of England proclaimed that he ruled by divine right. There was mounting rebellion against this idea, and by 1689 Parliament had gained ascendancy; it issued a Declaration of Rights and offered the crown of England to William and Mary. From that time on, the kings of England were no longer its rulers. By the 20th century, kingship had been phased out in nearly every country, to be replaced by presidents and parliaments. Power seemed to be exercised more and more by The People, and so this political movement which toppled the kings has been described as the march of democracy.

Take careful note of the fact that the democratic movement – in both theory and practice – has to do with the sanctions undergirding political action, with the authority back of whatever government does. Rulers of an earlier period when asked to justify a particular course of political action might say that they were exercising God's will, or that the moral law mandated their actions, or the law of the land, or custom. The justification, or the excuse, for any governmental action under a democratic regime, is that The People demand it – the rulers are merely carrying out the popular will. The People are sovereign under a democracy; that's where the buck stops. God or The Law would be acknowledged as sovereign under the early theory.

The Nature of Government

Now governmental action is what it is, no matter what sanction might be offered to justify what it *does*. The nature of government remains the same even though its sponsorship be changed. Government always acts with power; in the last resort government uses force to back up its decrees. Government is unique among all the organizations and institutions of a society; the government of a society is its police power, and the nature of government remains the same, regardless of the auspices under which a government acts.

Americans are justly proud of our nation, but this pride sometimes blinds us to reality. How often have you heard someone declare, "In America, 'We' are the

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government." This assertion is demonstrably untrue; "We" are the society, all 210 million of us; but society and government are not at all the same entity. Society is all-of-us, whereas government is only some-of-us. The some-of-us who comprise government would begin with the President, Vice-President, and Cabinet; it would include Congress and the bureaucracy; it would descend through governors, mayors and lesser officials, down to sheriffs and the cop on the beat.

Now, what is the distinguishing characteristic of the people in the categories I have just enumerated, the people who comprise government? Are they more wicked than other men? Well, to hear some people talk one would think so – people whose idea of political science is to faithfully collect instances of venality and stupidity in public office. These have their counterpart among the liberals, whose idea of high-level economic discussion is to tell tales about venal and stupid businessmen. There are many able and high-minded men in public life, just as there are good people in business. The distribution of good and bad is pretty much the same in every walk of life. There may be room for debate here, but little is gained by sitting in moral judgment on whole classes of people.

A Monopoly of Force

Government is unique among the institutions of society, in that society has bestowed upon this one agency a legal monopoly of the weaponry, from clubs to H bombs. Governments do use persuasion, and they do rely on authority, legitimacy and tradition – but so do other institutions like the Church and the School. But only one agency has the power to tax, the authority to operate the system of courts and jails, and a warrant for mobilizing the machinery for making war; that is government, the power structure.

Machiavelli used to say that only the usurper can understand the realities of power. The eldest son on whom the king's mantle falls peacefully thinks of his power in terms of pomp and display; but power to the usurper means plotting, intrigue, bribery, poison and the dagger.

The point to be stressed is that the essential nature of government – its license to resort to force at some point – is not changed by merely altering the warrant under which it acts. Divine right or popular sovereignty – it makes no difference to this point. Government is as government does.

The march of democracy which we have been discussing was paralleled by the freedom movement in England and America during

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the same period. The idea of individual liberty was given a tremendous boost by the Reformation and the Renaissance. The earliest manifestation of this new-found liberty was in the area of religion, issuing in the conviction that a person should be allowed to worship God in his own way. This religious ferment in England gave us Puritanism, and early in the 17th century Puritanism projected a political movement whose members were contemptuously called Whiggamores – a word roughly equivalent to "cattle thieves." The king's men were called Tories – "highway robbers." The Whigs worked for individual liberty and progress; the Tories defended the old orders of the king, the landed aristocracy, and the established church.

Early Step to Freedom

One of the great writers and thinkers in the Puritan and Whig tradition was John Milton, who wrote his celebrated plea for the abolition of Parliamentary censorship of printed material in 1644, *Areopagitica.* Many skirmishes had to be fought before Freedom of the Press was finally accepted as one of the earmarks of a free society. Free Speech is a corollary of press freedom, and I need do no more than remind you of the statement attributed to Voltaire: "I disagree with everything you say, but I will defend with my life your right to say it."

Adam Smith extended freedom to the economic order, with *The Wealth of Nations,* published in 1776 and warmly received in the thirteen colonies. Our population numbered about 3 million at this time; roughly one third of these were Loyalists, that is, Tory in outlook, and besides, there was a war on. Despite these circumstances 2500 sets of *The Wealth of Nations* were sold in the colonies within five years of its publication. The colonists had been practicing economic liberty for a long time, simply because their governments were too busy with other things to interfere – or too inefficient. Adam Smith simply provided a rational and a philosophical justification for what the colonists were already doing. These people knew in their bones, as Jefferson put it, that "If government should tell us when to sow and when to reap, we'd all want for bread."

Ten amendments to the Constitution were adopted in 1791. Article the First reads: "Congress shall make no law respecting the establishment of religion, or prohibiting the free exercise thereof . . ." America has never had a heresy law, and the First Amendment promises that we will not have a national church – the implication

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being that a man's deepest convictions are too important a matter to be entrusted to politicians. The separation of Church and State enunciated in the First Amendment was a momentous first step in world history. That step is implicit in Christianity and has been foreshadowed as far back as 494 in a letter of Pope Gelasius to the Byzantine Emperior Anastasius, in which the sacred and the secular were sharply delineated, but circumstances decreed that the final implementation should wait till the 18th century.

I have called your attention to two paralled movements; the march of Democracy which deposed the kings and gave "power to the people," and the movement to expand individual liberty which gave us freedom of religion, freedom of economic enterprise, freedom of the press, and free speech. This second movement was rooted in the religious reforms of Queen Elizabeth's day and led to political reforms designed to expand individual liberty. This was the major thrust of Whiggery.

The men we refer to as the Founding Fathers would have called themselves Whigs. Edmund Burke was the chief spokesman for a group in Parliament known as The Rockingham Whigs. In 1832 the Whig Party changed its name to one which more aptly described its emphasis on liberty. It became the Liberal Party, standing for free trade, religious liberty, the abolition of slavery, extension of the franchise, and other reforms. This development of ideas on liberty from Queen Elizabeth to Queen Victoria might properly be called the movement of Liberalism – Classical Liberalism.

Classical Liberalism

Democracy and Liberalism have had a parallel history of development since the 17th Century, and some thinkers have ably championed both – one as means, the other as end. They are sufficiently close historically so that it is easy to confuse the two; but they are sufficiently different so that such confusion breeds dangerous consequences. Liberalism and Democracy are related as end and means. The end is a free society where people have the opportunity for the fullest expression of their lives. This is Liberalism. A suitable mechanics for the attainment of this end is to abandon the heredity principle which gave us kings and allow the multitudes to vote for officeholders. This is Democracy, a means, whose end is the free society of Liberalism, Classical Liberalism.

We need to remind ourselves that there are two major political questions, not just one. Everyone

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who thinks about the philosophy of government must first thrash out the question: "What shall be the extent of rule?" That's the old way of putting it; we'd phrase the question somewhat differently today. We'd ask: "What is the role of a government in our society?" or "What activities belong in the public sector?" or "In the light of government's nature, what is its competence? What tasks should we assign to it?" Men who wrestled with these questions, or questions like them, gave us the philosophy of Classical Liberalism, which – I scarcely need remind you – is the exact opposite of what today parades as liberalism.

We are familiar today with the division of society into a public sector and a private sector. The former might be called the political or coercive sector, and the latter, the voluntary or free choice sector. To the public or political sector we assign those things which we believe cannot operate without coercion, things which need to be managed, controlled, regulated, quarterbacked, commanded. To this sector our ancestors consigned religion, publishing, public discourse, and economic action. But the ideas of Liberalism, gaining a hold on public opinion, released these four major human activities from bondage to the state.

There is a second political question, of much less consequence than the first. It has to do with choice of personnel: how do you select people for public office? This is the question to which democratic theorists addressed themselves, and the answer that Democracy gives to this question of choosing people for political position is: Vote! Democratic theorists, having examined the arguments for monarchy, for aristocracy, and for drawing lots, come out in favor of balloting. Lay down a few requirements for the privilege of holding public office, and for the privilege of voting, then – on a given day and place – let the qualified voters mark their X or pull the lever, and the person who gets the highest number of votes gets the job.

If these words were used in their proper and original sense, I would call myself a Liberal Democrat. I am a Liberal in wanting government to act only as such action expands the domain of liberty for all persons alike; and I am a Democrat in wanting the franchise wisely extended – provided that the vote is simply to choose this person or that to occupy public office in a properly limited government.

Some of our forebears in the 18th century entertained what they called the "stake-in-govern-

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ment" theory. This was the notion that voting should be limited to property holders; otherwise, those without property would use their power at the polls to loot the treasury of money that had first been taxed away from those who earned it. These fears were groundless at the time; in the first place, because almost everyone in the new nation *was* a property holder and, in the second place, the public treasury did not have enough in it to make looting worth while.

But the very existence of this theory indicates that some people of the period rejected the idea that government should be an agency for the transfer of funds from one set of pockets to another. This was a rejection of the principle of "redistributionism," on which all modern governments operate. Repudiation of the idea, that the state exists to advantage some at the expense of others, is the major thrust of Classical Liberalism. "Justice is the end of government," wrote James Madison in the 51st *Federalist Paper*. "It is the end of civil society."

The unforgivable sin – so far as Classical Liberal theory is concerned – is *the use of public power for private ends*. Present-day liberalism, by contrast, invariably boils down to: *Somebody's program at everyone's expense*. These two aphorisms are more than mere slogans, and in order to bring out their meaning let's take an imaginary trip to Berlin.

Forms of Collectivism

The year is 1927. You are strolling around the streets on a pleasant evening in May. You spy a small group of people gathered around a soapboxer wearing a red shirt. You listen awhile, but your German is not quite good enough to pick up the details of the excited harangue. So when the speaker has finished and the crowd has dispersed, you buttonhole the man and ask him what he's up to. "I'm a member of the Communist Party," he tells you, "and as soon as we obtain power, this is the program we are going to impose on Germany." And he proceeds to spell out for you the social pattern he wants to enforce.

You continue your stroll and encounter a similar group of people listening to a spell-binder in a brown shirt. After the speech is over you ask this man to identify himself and he tells you he is a spokesman for the German National Socialist Workers' Party – Nazi for short. He outlines the program his party will impose on Germany once they come to power, and you note that the Nazi program is almost indistinguishable from the Communist program;

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both eliminate individual liberty, both centralize power in the hands of a monolithic party, both oppose the market economy, both politicalize education, and both seek to eliminate or domesticate religion. The fact that Communists and Nazis fought each other in the streets does not mean that they opposed each other philosophically. In the Wars of Religion, Christians fought Christians, although the matters on which they agreed seem to us today, looking back, far more extensive than the points on which they differed.

Self-Government

You continue your stroll and finally come across a speaker dressed rather quaintly and addressing his tiny audience in measured, academic tones. When the man finishes his discourse you fall into conversation with him and learn that he and several friends in Berlin have a study group which reads and discusses the works of Adam Smith, Edmund Burke, and – to your utter amazement – *The Federalist Papers!* You are so fascinated that you can hardly wait to hear this man's program for Germany. "We have no program for the nation," he tells you. "It is our belief that people, either individually, or working through voluntary associations, can plan their actions better than these can be planned for them by the centralized power structure. Like your Mr. Madison, in the 39th *Federalist Paper,* we rest all our political experiments on the capacity of mankind for self-government."

Classical Liberalism is unlike any other political theory. Every other political philosophy contemplates a National Plan, a program to put people through their paces. Your choice at the polls, then, is between this set of people with their XYZ Plan for the nation; versus that set of people with their ABC Plan for the nation. What choice does this offer for the ordinary citizen who's injuring no one, who just wants to live his own life in peace with his neighbors, and who does not want to plan other people's lives? The answer is: No choice at all!

I have described the movement of Liberalism from the 17th to the 19th centuries as an effort to expand the boundaries of individual liberty. How? By curbing the power of governments to diminish the efficacy of personal choice in the major areas of life. "The history of liberty," said Woodrow Wilson in 1912, "is the history of the limitations placed upon governmental power."

Now, when you address yourself to the question of the proper role of a government within a so-

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ciety you are dealing with an issue loaded with intellectual and moral content. "What is the competence of government?" and "What circumstances in society render it necessary to bring legal coercion to bear?" are questions you have to wrestle with, argue about, debate, write books on. They are of the same nature as disputed and difficult questions in history, psychology, archeology, or any other discipline. Most certainly, they are questions of a different nature than "Do you prefer ice cream to apple pie?"

The Limits for Voting

In simple matters of personal preference the opinion poll is a means of getting statistics. Some people find such figures valuable, and so we keep poll takers in business. Professional samplers of public opinion keep a running profile of changing voter preference for the presidential race of 1976. The balloting which will take place next year is the same kind of a thing as a Gallup poll; it will be a measure of popular preference for Mr. Ford over Mr. Jackson — or whoever. Voting is little more than a popularity contest, and the most popular man is not necessarily the best man, nor is the most popular idea the soundest idea. Balloting, then, is a means for dealing with the second, and much less important of the two political questions: "Who shall hold public office?"

It is obvious, now, that balloting is not a way to get at the fundamental question of the proper function of government in a society. We have to think hard about this one, which means we have to assemble evidence; weigh, sift, and criticize it; compare notes with colleagues, and so on. Which means that this is an educational endeavor; a matter for the classroom, the library, the study, the podium, the pulpit, the forum, the press. Mr. Gallup has no place here; to count noses at this point is a cop out. Furthermore, it is obvious that we cannot possibly arrive at sound conclusions about the role a government should play in a society unless we base our political speculations upon a solid understanding of our own nature, and the place of man in the total scheme of things.

If man is "little more than a chance deposit on the surface of the world, carelessly thrown up between two ice ages by the same forces that rust iron and ripen corn," as the famous historian Carl Becker put it, then it's a matter of almost total indifference what kind of social and political arrangements we have — so long as we are comfortable and well fed, and no one steals our security

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blanket. But if we truly assess the greatness of the human spirit – as witnessed by man's aspirations and his achievements in religion, art, philosophy, music, literature, law, as well as in the building of great civilizations – then we know that our three-score-years-and-ten are a moment in eternity, whose opportunities are offered us once and never repeated. So what we do with our earthly pilgrimage is a thing of utmost importance; and one thing we must do in life is work on the institutions of our society so as to widen the scope for individual persons to fulfill their potential.

Body and Mind

Human nature has several facets; every one of us is compounded of at least three elements. Biological factors are evident in our make-up; we are mammals and we are bipeds. This aspect of our nature is so obvious that some have been led to believe, erroneously, that this is all we are. The visible part of us is material, the physical body, which is stamped with our uniqueness. No one can grow fingerprints like yours. Body type – whether tall and slim or short and wide – has something to do with the shaping of our total personality and our greater susceptibility to certain diseases; but this is not what makes us distinctively human. Our anatomy by itself does not produce our language, and without a language we'd have no words to express our thoughts and our thoughts would be exceedingly primitive.

Language and thought are the marks of the second component in our nature, the mind. The body can be trained but only the mind can be educated. Mind and body interact, but their relations are so subtle as to puzzle the greatest of philosophers. Your mind, too, is uniquely your own. Mind and body together form your "psychosome," and when the two are out of phase you have a psychosomatic illness.

Cultural Components

Now, in addition to your mind and body combination, there is a third essential ingredient that goes into making up the Self you are. Your psychosome receives an infusion of cultural components. If your particular psychosome had been born in Calcutta, say, or Peking, you would be a different person than the Self you actually are, despite the fact that your psychosome would be identical in each case. Your genes are undeniably important in the shaping of your nature; they make you a clever animal with enormous latent learning ability. But in addition to your genetic endowment you have a cultural heredity; there's

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a little bit of some society in every Self. And the society which is in each one of us is compounded of the language, the traditions, the customs, conventions and laws of the West – not of the Orient, or Africa, or Oceana. To acknowledge that we are nurtured in the world vision of the West is not to pass an adverse judgment on other cultures; it's simply to say that theirs is not ours. Incidentally, only those who are securely rooted in their own heritage can sense the true inwardness of other cultures.

In short, you would not be you if your Self were the product of another culture. Subtract the products of *this* culture from your make-up and you would be a clever anthropoid – nothing more. This is point one.

Every living organism proclaims by its continuing existence that life is to be preferred over death. Schopenhauer professed to believe otherwise; he declared for pessimism and preached that life is not worth living – until he died of natural causes at 72! Some do give up on life, too many; others cling to a wretched existence. A few discover real zest and joy in living. But anything this side of the despairing gesture of suicide constitutes an affirmation that it is better to be alive than dead. Point two.

Point three merely voices the obvious; the only life you have to live is the one you are living now in this place – this town, this state, this nation – at this time in history. Your citizenship is a thing of great value which people of other nations are willing to pay a high price to obtain. Living here you receive a greater economic reward for less effort than your counterpart in other parts of the globe; your rights are less in jeopardy than his, you have more latitude than he in pursuing your personal goals, you are freer in your hourly and daily rounds.

The human aim is not simply to live, it is to live well. The Self you want to preserve is ineluctably linked to the culture which went into its formation – our culture. Transplant your Self to an alien culture, and while it might survive it surely would not flourish. Stimulating interaction with your native habitat – with twentieth century America – provides optimal conditions for a flourishing life for yourself. Self-preservation – the first law – implies, therefore, an alert concern for the health of the values embodied in our culture. To the extent that a person respects the life that is in him, to that extent will he seek to preserve and strengthen the social matrix in which he was cast. If the nation as a whole appears to be beyond

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redemption or turns hostile, then the people who cherish sound values will produce a subculture within it; they'll become a Remnant. The Amish are an example of such a culture within a culture, and so are the Mormons.

Respect for one's Self and its values develops solicitude for the institutions which support them, and generates a willingness to defend those institutions. Self-rejection, on the other hand, alienates a person from his native culture and leads to antagonism toward the society which produced that Self. Disorder within is projected as strife without.

Two Aspects of Culture

There are two things to be said about a culture. In the first place, a culture is something cultivated; it's not nature, but it might be called our second nature, for what we absorb from our social environment transforms a clever animal into a human being. We are humanized by what we learn in the educational process – by what we get from our parents, from our peers, from books, and from the prevailing intellectual climate by a sort of osmosis. In the second place, our culture is a transmission belt linking the generations, connecting those long dead with those not yet born. We acquired our values from our ancestors and, in a sense, made them our own; and we will pass these values along to our children, and they, in turn, to their descendents.

There are individuals and organizations in our midst whose announced aim is to destroy our society. They profess to hate the values of Western civilization, so they want to burn it down, blow it up – or talk it to death! Now, there is a large measure of self-hatred in these people who turn against civilized values; their dislike of themselves is externalized as a lust to tear down the culture which has shaped – or misshaped – them into what they are. Instead of destroying that which they hate – themselves – directly, by suicide, they seek to subvert the society responsible for making them misfits.

But if we accept ourselves, with all our shortcomings, as the Selves we really are – body and mind plus cultural components – then we have an obligation to defend body and mind and also the society whose values are selectively in our very being, with every resource of reason, persuasion, example and – in desperate last resort situations – by force.

Western civilization is grounded in the elements of civilization itself, to which it adds things unique to the West. The fundamental social value in Western civilization

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is individual liberty. The human person is looked upon as God's creature who must be free if he is to fulfill his duty toward his Maker. This is the theological conviction which, on the political plane, spells out into the free economy and limited government. When the law preserves freedom of personal action, within the rules for maximizing liberty and opportunity for everyone, then government – so conceived – is the necessary prop to the free society.

I began this paper with some references to prize fighting, often referred to as "the manly art of self-defense." Now, we do not expect teachers of boxing, or judo, or karate to use language with due regard to semantic accuracy. When they say "self-defense" they really mean "body defense." They do not teach you how to defend your mind from invasion by logical fallacies, nor are they concerned with the protection of the cultural elements in our make-up. *Self*-defense, literally, must operate at these three levels: body, mind, and culture.

We expect more precision in the use of language from social scientists and philosophers, but we seldom get it. For the past century and a half political theorists have talked about man's right of self-defense when they meant no more than a presumed right to protect his material body and his property – his property being merely an extension of his body. It is altogether right that a person defend his body from injury and his property from invasion, but a careful use of language demands that we label this "body-defense" and "defense of property"; it is grossly inaccurate to speak of defending one-third of our Self as "self-defense." We admit as much in the word "bodyguard."

The Bodyguard's Role

You hire some burly and aggressive young man to see to it that unwelcome hands are kept off your carcass; he also sees to it that no one steals your car or breaks into your house. He guards your body and its material extension as property, but what about the other two parts of your Self – your mind and the cultural components in your make-up? It is not a function of your bodyguard to fortify your mind against falsehoods and specious reasoning, nor do we expect a bodyguard to buttress the values which undergird the free society. Concern for things of the mind and for cultural values are not part of his job as a bodyguard. But a genuine understanding of the Self leads to a realization that the defense of the Self demands more than any mere bodyguard can supply. It demands a proper concern for the requirements of

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liberty and justice in society.

The bodyguard offers his protective service on the market; he has a price tag. The market is perfectly competent to handle anything to which a price tag may appropriately be affixed. A synonym for "the market economy" is, in fact, "the price system." The price system covers that sector of life where things are offered for exchange and sale, where a *quid pro quo* is expected; 69¢ for a loaf of bread, a hundred dollars for a suit, ten thousand dollars for a year's work, and so on.

The price system or the market economy is the only sensible way to handle matters in the sector of life where things and services are offered in exchange; this is the realm of economic calculation, where things can be reduced to monetary units. But there is a realm beyond the realm of monetary computation, where things do not have a price tag. Justice belongs to this realm, and so do such moral goods as liberty, honor, love and friendship.

If justice is for sale it is not justice; as we acknowledge in such old gags as "Hizzoner is the best judge money can buy." Honor is beyond price; if you can buy it it's not honor. "What shall a man give in exchange for his soul?" Or freedom. Can you put a price tag on it? Could you take the 1975 national budget and use it to buy us a free society? Could we use our gold and buy packages of freedom in carload lots until the free economy is established? Take love. If it's for sale it's not love. You may be able to earn love, but you cannot buy it. A man who throws money around may acquire a group of so-called friends, but no one believes this to be the way to achieve real friendship.

Beyond Monetary Computation

There is a realm of life beyond the realm of monetary computation, where we find such goods as justice, liberty, honor, love and friendship. Two of these several goods are of immediate concern to political philosophy: justice and liberty. Justice is giving every man his due; justice provides "a free field and no favor." Justice is equal treatment before the law; one law for all men alike because all are one in their essential human nature. A just society is one which offers maximum liberty for all persons. Justice cannot be measured in monetary terms, and the same is true of liberty; no price tag may appropriately be affixed to either justice or liberty. This takes them out of the economic realm, for the market is incompetent to handle those things which cannot be priced.

It is obvious that honor, love and

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friendship are likewise without price – which takes *them* out of the economic realm. But neither can they be enforced – which takes them out of the political realm. But justice can be enforced. It is right that an act of violence against person or property be repelled or redressed forcibly. The rules which maximize individual liberty in society are occasionally infracted, and these aggressive or criminal actions must be counteracted by force, in last-resort situations.

This legal employment of force to rectify violence is the task of justice, and the only agency competent in the circumstances is government – for two primary reasons. I've already touched upon one, the fact that justice has no price tag, which takes it out beyond the market place. In the second place, the market is wholly peaceful; there is no force involved in producing economic goods, nor is there force in the network of voluntary exchanges which follows. Obviously, then, a wholly peaceful institution is incompetent to allocate acts of force. Only the political agency is competent to perform this necessary function in society, and when government performs competently within the limits imposed by the nature of its tasks, then individual liberty is maximized.

Liberalism Means Freedom

Liberalism used to mean freedom. Classical liberalism performed mightily and achieved major breakthroughs in the area of worship, free speech, freedom of the press, and freedom of economic enterprise. Then despotism returned and liberalism betrayed itself. We have been losing our liberties under the delusion that the democratic and majoritarian political process would automatically secure them! Several generations were misled into believing that once The People were in power, society would be free. The result is twentieth century totalitarianism masquerading as The People's Republic of this or that Communist nation, where power is wielded arbitrarily and with utter ruthlessness.

We now know that people do propel themselves along the road to serfdom by majority vote, and we see that those who have voted themselves into slavery are just as much slaves as those who have been put in bondage by a conqueror. Power is power, whether sanctioned by divine right or authorized by the popular will. Power is not liberty; liberty operates in another dimension and has other requirements. As soon as a significant number of people become aware of these requirements, Liberalism will again mean freedom.

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JAMES H. WIBORG

Social Responsibility

MUCH HAS BEEN SAID in regard to the social responsibilities of business, and businessmen have oftentimes risen to the defense of their businesses and the free enterprise system. I am not here today to defend the free enterprise system or what is done by responsible businessmen. Instead, I am here today to praise it. Too often we have been on the defensive where we should stand back in awe and admiration of the only economic system ever to function in the world to provide freedom and the right of free choice to each individual who will make an effort within that system.

Throughout all of the written history of the western world, men have strived to obtain individual freedom and a right of each person to ownership of his own property and to the enjoyment thereof. In the middle ages the world suffered from feudalism and serfdom but with the dawning of the industrial revolution and the concepts of individual freedom introduced in England and reaching their culmination in America, each man had the right to his own property and the rewards of his own effort. Freedom meant that no other man had a right to those rewards or to the sweat of another's brow. Slavery was abolished but with the insidiousness of a plague, slavery began to reappear in the form of Marxism so that today we are told each of us is obligated, not through enlightened self-interest and not through our own sense of consciousness

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Mr. Wiborg is President of the Univar Corporation. This is from his report to the Annual Meeting in Seattle, June 25, 1975.

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stone age. Most popular thinking in the field is of the "bricks and mortar" variety. For example, take a walk downtown in any major city. Observe the tall buildings emblazoned with the names of the *Fortune* 500 corporations. The average person will get the impression that tall buildings and giant corporations are the essence of the economic system; and who, indeed, would not feel very small and impotent in the canyons of Manhattan, Chicago, or Los Angeles?

Aggravated by Inflation

The feeling of powerlessness which this "bricks and mortar" impression produces is compounded during a time of inflation, when the unit of account is depreciating. Any consumer who goes to the store two days in a row and finds that the price has been changed, that his money is worth less, wants to blame the first human being he sees marking prices. Is it not true that the power to set prices is the power to increase profits? How helpless the poor consumer must feel. How open he must become to arguments based on the conspiracy theory.

Samples of public opinion regarding the level of profits in the American economy reveal the common belief that businessmen make something like 30 to 40 per cent profit. The fact that the actual rate of return on capital is more like 3 to 4 per cent (and this measurement does not include business failures, which Frank Knight once suggested might make the society-wide rate of return *negative*) is almost unknown to the mass of voters. Those who have heard the correct numbers probably don't believe them. After all, conspirators will systematically lie, won't they?

The problem of shallow thinking about economic processes, however, runs much deeper than simple errors in information. The study of economics is the investigation of the indirect consequences of activity. Popular theories almost always rely upon direct action, without giving thought to the indirect effects. Do you see a problem? Solve it! Make the trouble go away! Wave your magic wand. Pass a law. Never mind the fact that the problem is possibly a mirage, and that the law you pass will probably create a real problem in its place. Consider one sophisticated version of the conspiracy theory.

Economic theory tells us that a monopolist may set his price above the "natural market rate" and collect monopoly profits. The theory relies upon an absence of substitutes and alternatives for the buyer. If you accept the conspiracy theory, you can broaden this no-

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tion of monopoly to include "concentrated industries" – that is, those industries where the biggest three or four companies sell over 60 per cent of the products. Take a guess about profits in those industries: will they be above average? If you find some that are above average, will they persist above average over a long period of time? Is it true that the Big Three are exploiting a monopoly position, and the poor little consumer is getting robbed?

Look at the Record

Based on a small sample of concentrated industries, Professor Joe S. Bain published an article in 1951 which seemed to support the "market concentration doctrine" that we described above. This article touched off some investigations which, also based on small samples, seemed to confirm the report. And so it became part of the conventional wisdom that Big Business rips you off. What are the facts? In 1971, Professor Yale Brozen published a series of articles in the *Journal of Law and Economics;* his conclusion:

> Persistently high returns do not appear to be characteristic of high-stable concentration industries. "High" returns occur in small, specially selected samples of high-stable industries, but not in larger samples. Above average rates of return for both sets of samples, even when insignificantly above the average in the earlier of the comparison periods, converge on the average of all manufacturing industries as time passes.[1]

Of course, there is a movement in Congress to amend the antitrust laws in order to "break up" the concentrated industries.

Consider the public policy implications of a more vigorous and expanded enforcement of the antitrust laws. In the first place, it will probably be entertaining to the public for the government to prosecute a series of "economic conspiracies." The voters will be pleased, because they believe in the conspiracy theory of economics and it might take their minds off the problem of runaway inflation (caused by Congress and the Fed). Yet, consider the longer-run, indirect consequences of more government control. As F. A. Hayek has pointed out, the belief in incorrect economic theories has produced the bulk of "bad" law in the past 100 years. The growth of the administrative State, economic regulations and bureaucracy with

[1] Yale Brozen, "The Persistence of 'High Rates of Return' in High-Stable Concentration Industries," *J. Law & Econ.*, XIV (Oct. 1971), p. 504. See also Brozen's article, "The Antitrust Task Force Deconcentration Recommendation," *J. Law & Econ.*, XIII (Oct. 1970), pp. 279-92, (available as a reprint from the American Enterprise Institute).

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wide-ranging authority to collect information and issue commandments, and the belief that we need economic planning by some central agency, are all based on a peculiar theory of economics. Unlike the self-regulating system described by Adam Smith in 1776, which moves towards an equitable distribution of goods and services by indirect effects of trade and profit-seeking, the conspiracy theory of economics assumes that the society is populated by evil spirits which must be consciously fought and regulated in order to stave off disaster and misery.

It will be interesting to see if the careful, empirical research of economists in the tradition of Adam Smith will be able to gather enough information to disprove the conspiracy theories of the populace, or whether the economic magicians who cater to the popular mood will ultimately be awarded control of the economy "to save us from disaster." It will be interesting to see the *real* causes of disaster.

IDEAS ON LIBERTY

"The Other Fellow Will Pay"

SOME HUMAN BEINGS like to get benefits – with less, rather than more, work and thrift. "For free" – paid for by "the other fellow" – has tempting appeal. And experience shows that politics *can* be used to obtain services which others will pay for (or seem to pay for). Political campaigns in America include pandering to this human characteristic. Various trains of thought, and rationalizing, have supported such selfishness.

A business cannot say, "Select my product, and someone else will pay." The political process, however, can hold prospects of benefit to one group at the expense of others.

"The candidate who uses his own money to buy votes," someone has said, "is called corrupt; the one who promises to use someone else's money is called a liberal." And "liberalism" has been a powerful force in American politics.

Obviously, spending programs must be paid for. Who, then, is being fooled? Why may use of the "for free" argument continue in a society with as many educated people as here? One explanation, I suggest, is that a combination of graduated tax rates and hidden taxes does give plausibility to "the-other-fellow-will-pay" attitudes.

C. LOWELL HARRISS, *from an essay, "Economics and Politics: Thoughts on Government Finance"*

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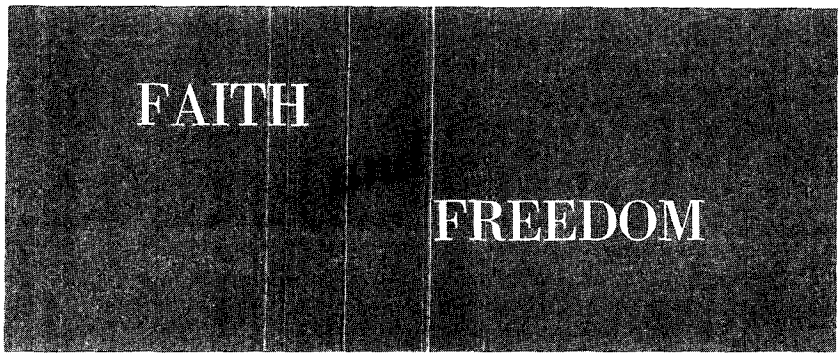

IT IS PART of our folklore that it took the Supreme Court decision of 1911 to break the grip of John D. Rockefeller's Standard Oil holding company on the business of transporting and refining oil. But long before the dissolution of the "oil trust," which had never been much more than a matter of dominating the small world of kerosene marketing, the Pew family of northwestern Pennsylvania was in the business of "producing petroleum, rock and carbon oil; transporting and storing same; refining, purifying, manufacturing, shipping, selling and marketing such oil and its various products." (The quotation is from the incorporation statement of the Sun Oil Company of Ohio, dated 1890.)

The founder of Sun Oil, Joseph Newton Pew, was not at all intimidated by the "trustifiers" of our so-called Gilded Age. In 1886, which was four years before the enactment of the Sherman Anti-Trust law, the Pews were busy acquiring leases in the new trans-Appalachian oil and gas field of Lima, Ohio. Sun invaded the supposed monopolistic preserve of the Rockefellers before the "waste" by-product known as gasoline had become important to the new automobile economy. Uncommitted to kerosene, it was ready for the new world of Henry Ford, Ransom Olds

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and the other Detroiters who were, at the turn of the twentieth century, about to put America on wheels. When the Spindletop gusher came in on the Texas Gulf Coast in 1901, Sun was ready to build an East Coast refinery on the Delaware River at Marcus Hook and to transport Texas oil by tanker to markets that John D. Rockefeller could no more monopolize than King Canute could keep the tide from rising.

With his family background, it is hardly a mystery that J. Howard Pew, the son of Joseph Newton, never had any fear that America might be enslaved by an industrial oligarchy of any type. It was given to Howard Pew to carry on the work of independent forebears who found no quarrel between their deep religious convictions and the honest competition of an age that, in retrospect, was much less of a dog-eat-dog era than we have supposed.

Biography and History

In an absorbing little book called *Faith and Freedom: The Journal of a Great American, J. Howard Pew* (Grove City College, $6.00), Mary Sennholz has combined a sensitive biographical treatment of Howard Pew with a skilled job (she calls it a "compilation," which is over-modest) of presenting, in paraphrase and direct quotation, Mr. Pew's thoughts on religion, politics, charity, education and industrial enterprise. The combination makes for a remarkable testament that tells us more about an America that we are in danger of losing than can be found in scores of more pretentious works.

The distinguishing characteristic of Howard Pew was that he was whole-souled about everything he did. As a Presbyterian layman, he believed in the will of God and the gospel of Christ. He saw no conflict between Christianity and capitalism. It was not only good business, but good social relations, to offer a stock purchase plan to Sun employees and to refuse to make general lay-offs or wage reductions in depression years. Sun, in the post-World War II years when the government was imposing restrictive quotas on the importation of crude oil from abroad, kept its tankers employed with smaller loads, an "uneconomic" operation that actually paid off by keeping an organization both intact and enthusiastic.

Meanwhile Sun pushed technological change as both a human and an industrial duty. It helped the French inventor Eugene Houdry bring his catalytic cracking process to America in time to fuel more than half of all American war planes in 1942 and 1943. The Sun Shipbuilding Company was

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building half of all the new tankers in the country in 1943, the peak year of the war effort. And, as a prelude to meeting the energy crisis of recent years, Howard Pew carried out the costly venture of developing a process of getting good synthetic crude oil from the tar sands of Athabasca in the Canadian province of Alberta.

A Loyal Churchman

To Howard Pew, obedience to the will of God meant keeping his beloved Presbyterian church from moving out of its "ecclesiastical field." The business of the clergy was to save souls, not to impose a socialism on society that would deny individual responsibilty to behave in a truly Christian manner as a matter of voluntary commitment. A believer in the "theology of reformation," not the "theology of revolution," Howard Pew was deeply shocked by the selective nature of a "social gospel" that had much to say about Vietnam yet refused to speak out when Russians invaded Czechoslovakia or when Mao Tse-tung presided in China over the murder of millions of his countrymen. When he retired as the presiding operating officer of Sun Oil to go into the business of promoting good Christian education, he fought the many Protestant "modernists" who tried, as they are still trying, to identify morality with State compulsion in both social and economic life. Charity, to Howard Pew, implied a voluntary commitment; otherwise it was just organized thievery masquerading as good will.

Opposed to Statism

Howard Pew opposed Statism on principle. He would have been against it on grounds of conscience even if it had been compatible with industrial efficiency. Fortunately he was never compelled to go against the pragmatic evidence of the case. As a student of history he had noted that the "squirrel rifle" of the Pennsylvania frontiersmen, produced by an individualist gunsmith in Lancaster who cut a spiral groove inside the gun barrel that gave the bullet a rotary movement, was far superior to the Brown Bess musket favored by both the British politicians in London and the American Continental Congress. Washington had to fight the Congress for a limited supply of the Pennsylvania rifles, but he fooled the British and the Hessians into thinking he had more of them by the trick of dressing troops in the frontier coonskin and leather of the Pennsylvanians. The uniforming ruse was enough to start panic in the British; it could have been the determining factor in the war.

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Howard Pew didn't object to governments for being conservative. But since they must be conservative to keep faith with taxpayers, a point made by Ludwig von Mises in his book on bureaucracy, Mr. Pew thought they had no business invading the province of private industry, which has to be innovative to compete in the marketplace and to earn a dividend for investors. In his support of institutions such as Grove City College and the Foundation for Economic Education, Mr. Pew was engaged in a principled fight for keeping the categories straight.

The business of the church is to hold men to moral values. Men with moral values will obey the Golden Rule in their business dealings. They will also live by the Parable of the Talents. The State, with its commitment to providing a just order in which free men can exercise their ingenuity, will not interfere with invention and the flow of energy. So the "freedom philosophy" will flourish.

Such was Howard Pew's credo. He lived it to the full.

Faith and Freedom is available at $6.00 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

▶ THERE'S NO SUCH THING AS A FREE LUNCH by Milton Friedman. (LaSalle, Illinois: Open Court, 1975), 330 pp., $9.95, $3.95 paper.

Also published in paper by Thomas Horton and Daughters, Glen Ridge, New Jersey 07028, under the title *An Economist's Protest*, 2nd edition, $3.95.

Reviewed by William H. Peterson

ON AUGUST 17, 1971, two days after President Nixon launched his New Economic Policy on a dumbfounded world, ace University of Chicago economist Milton Friedman, past president of the American Economic Association and the Mont Pelerin Society, participated (as did I) in a telephonic conference of 12 economists commenting on the President's historic action.

Ever the brilliant economist and debater, Friedman completely dominated the discussion. He pushed for floating exchange rates (which have since come to pass). He said the President's shutting

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the gold window was but "window-dressing," for the U.S. dollar had long been in effect an inconvertible currency. And, above all, he emphatically predicted that the wage-price controls would fail as they had ever since Diocletian's Edict of 301 A.D., that they would prove a cloak for the deficit spenders in Congress and the easy-money boys in the Federal Reserve, that they would in fact breed greater inflation than ever in America in the 20th century (which they most certainly have).

Well, here is the genuine article, vintage Friedman, rare wine for free enterprisers, selected *Newsweek* columns from 1966-1974 (some of which appeared in an earlier edition entitled *An Economist's Protest*). There is also his celebrated *Playboy* interview covering in one grand sweep a rather full panoply of his incisive views, plus his *Fortune* article on "Using Escalators To Help Fight Inflation," his series in the *New York Times* on "Morality and Controls" and his corking analysis of our monolithic school system in his "The Voucher Idea" from the *New York Times Sunday Magazine.*

In short, this is practically a new book, and it is capital. In all there are 97 entries under such headings as energy, central planning, the Post Office, education, indexation, social responsibility, gold, the voluntary army, the plight of Britain, taxation, regulation and, of course, monetary policy. All of them are sharp and lively, full of timely examples, full of trenchant Friedman wit, full of that eternal verity that, no, Virginia, there is no such thing as a free lunch, that every bit of pork, every subsidy, every inflation, every politically-imposed inefficiency, is paid for, and paid for handsomely – by somebody.

This vintage Friedman is, as usual, rich in aphorisms:

- On inflation: "We know how to stop inflation – it isn't terribly difficult – we simply don't want to. . . . After a while people begin to think they'd rather have the sickness than the cure."
- On pollution: "Even the most ardent environmentalist doesn't want to stop pollution. . . . He wants the right amount. . . ."
- On poverty programs: "The law of supply and demand works very generally: If there is a demand for poor people, the supply of poor people will rise to meet the demand."
- On Social Security: "If you talk about misleading labeling, Social Security is about as misleading as you can get. It has nothing to do with social and it has nothing to do with the security of society. . . . The employer and the employee each supposedly pay 5.85 percent,

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but since the employer's half is part of his total wage cost, it's the employee who's really paying the whole bill."

• On social responsibility: "When an executive decides to take action for reasons of social responsibility, he is taking money from someone else – from the stockholders, in the form of lower dividends; from the employees, in the form of lower wages; or from the consumer, in the form of higher prices."

To be sure, the irrepressible Friedman specializes in controversy, even among conservatives and libertarians. He is, for example, no fan of gold-backed currency. He is the founding father of the negative income tax. He is a long-time critic of the Federal Reserve; indeed, he even blames the Fed for causing the Great Depression, as he spelled out in his pioneering *A Monetary History of the United States* (with Anna J. Schwartz). His charge today to Dr. Arthur F. Burns and the other Fed governors: Stop manipulating the money supply, and hew to a steady money stock growth formula of about 4 percent a year.

But no matter if you're a Friedmanphile or a Friedmanphobe, reading his book you come away with a feeling that here is a scintillating mind, a champion of the free market and a free society. For our money, Milton Friedman is a titan worthy of the next Nobel Prize in Economics. *Voilà*, he has proven that while economics may be the science dismal it certainly doesn't have to be the science dull.

▸ THE COMING COLLAPSE OF THE POST OFFICE by Robert J. Myers (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1975), 182 pp., $6.95

Reviewed by Melvin D. Barger

THIRTY YEARS AGO, the economist Ludwig von Mises demonstrated in a commentary on bureaucracy that the only alternative to *profit-seeking* business management is *bureaucratic* management. There is a popular delusion that public enterprises can be set right by adopting the methods and managers of private business, but Mises saw that this was impossible because of the fundamental difference between government and profit-seeking private enterprise. So the answer was to accept bureaucratic managers where necessary (say, in a police department), while at the same time curbing their powers by "bureaucratic makeshifts" to prevent them from becoming irresponsible spenders of public money who would disorganize the whole budget.

This was a wise observation that

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could have saved the United States billions of dollars; unfortunately, however, public policy is not shaped by students of Misesian economics. Nevertheless, events have a way of vindicating the wise master of the Austrian school. Robert J. Myers, in *The Coming Collapse of the Post Office,* shows what happened when the U.S. postal system was transferred from ordinary bureaucratic management to a new government corporation that was supposed to solve all of the then current problems. Myers, publisher of the liberal magazine, *The New Republic,* indulges in some hyperbole to imply in his title that the postal collapse already has occurred or came about only since the new postal corporation was launched on July 1, 1971. Some of us thought the postal system was in a mess under the old set-up, too. This reviewer, who had not taken the trouble to reread relevant portions of Mises or to heed the warnings of other libertarian stalwarts such as FEE's Leonard Read, thought that the "government corporation" made sense and might conceivably bring needed improvements in postal services.

But whether you call it collapse or merely confusion, the postal corporation has been a colossal failure that is providing even less service than before and at much higher cost. According to Myers, postal corporation managers have become a self-serving elite and are now the highest paid executives in government. This reviewer remembers that the postal unions opposed the new corporation; ironically, they have been able to get much fatter labor contracts from the new organization than they were ever able to get from the old bureaucracy. Malinvestment is rampant in the new corporation, service is rapidly deteriorating, costs are spiraling in all directions, and mechanization programs have often been unsatisfactory. The corporation was supposed to "break even," but it continues to operate at a deficit.

What went wrong? Myers comes very close to an accurate diagnosis of the problem, but his own conflicts of interest may have flawed an otherwise sound report. As publisher of a low-circulation intellectual magazine, he defends subsidies for publications. As the head of a magazine that rarely has a kind word for the business community, he voices constant criticism of Big Business and the profit motive. He even attempts to portray the failure of the postal corporation as another private business failure without explaining the significant differences between investor-owned companies and government enterprises.

If the book has an arch-villain,

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it is probably Frederick R. Kappel, the retired A T & T head whose 1967 Commission Report launched the idea of a postal corporation. Myers apparently sees the postal corporation as an extension of the same kind of shenanigans Kappel engaged in as chief of the Bell network, but it is noteworthy that the average citizen would be pleased to have mail services equaling the telephone system. Kappel's great abilities simply did not carry over into government enterprises; indeed, his A T & T prestige may have helped foster the delusion that a government corporation would somehow "work." For that reason, he probably deserves the blame that Myers heaps on him and various postal executives.

Despite his anti-business bias, Myers has high praise for the privately-owned United Parcel Service, the postal system's largest and most successful competitor. However, he does not identify profit-seeking as a primary factor in UPS's excellent service, nor does he really warm up to the idea of giving UPS a free hand with other types of mail.

Still, Myers does make a strong concession to the free marketplace by giving reasonable space to the libertarian argument that the Private Express Statutes should be repealed, permitting anybody to carry mail. He quotes *Human Events* publisher Robert Kephart as an opponent of government subsidy through non-compensatory postal rates of magazines and publications. "I would vastly prefer to see postal services demonopolized; and the rise of a free market competition in delivery of all classes of mail . . ."

According to Myers, this view has gained increasing support and respectability through the publication in 1974 of an American Enterprise Institute monograph by economist John Haldi. Haldi points out that the statutory postal monopoly has no economic justification, is no longer an important source of governmental revenue, and in no way promotes better or cheaper mail service. In fact, Haldi suggests, the monopoly probably impedes the development of better systems for delivering written communications. Haldi's most telling argument, in Myers' view, is implied in the question: Why, if the Postal Service constitutes a "natural monopoly," does it require statutory protection?

In the end, Myers mentions, without advocacy, the repeal of the Private Express Statutes as one solution to the postal mess. He goes on to list other schemes, most of them variations of the intervention that has plagued the post office throughout its history.

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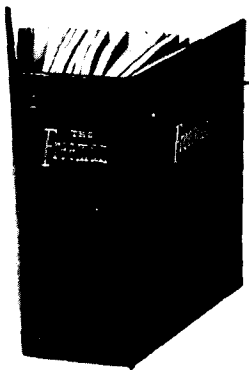
Despite its interventionist tone, Myers' book is a significant addition to the still-scarce current literature on postal problems and it has received considerable press attention. He should have diagnosed the failure of the new postal corporation as yet another failure of government rather than a business failure such as Penn Central or Rolls-Royce; after all, the executives of the postal corporation are under no constraint to make a profit or to heed the other disciplines of the marketplace. But Myers does show that government corporations are not the answer to the problems of government bureaucracy. He offers convincing proof that the autonomy of the government corporation becomes its undoing. Ludwig von Mises would have agreed, arguing that government bureaus such as the post office need "bureaucratic makeshifts" to keep them in line. But in a truly free market, with anybody permitted to carry mail, nobody would need the poor protection of such makeshifts in the first place.



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Prepared by BETTINA BIEN GREAVES of the Foundation staff

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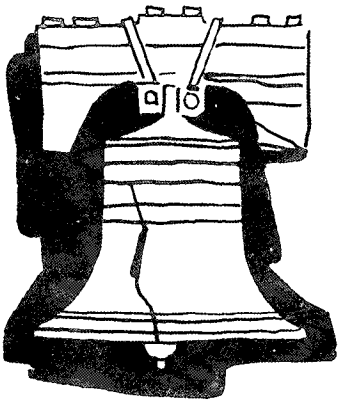

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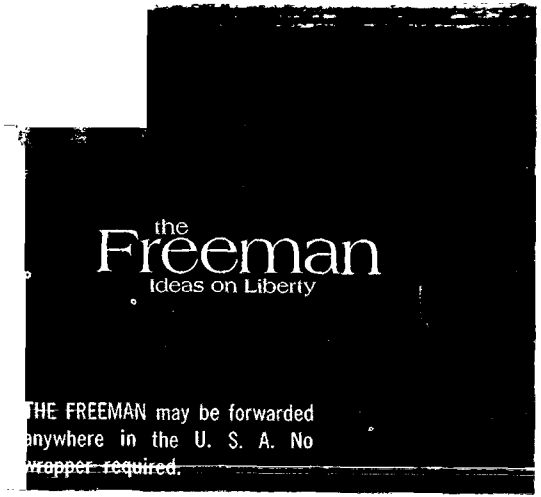

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